

# **CITY OF PETALUMA**

Audit Report

## **FLOOD CONTROL SUBVENTIONS PROGRAM**

Petaluma River Flood Control Project

*June 26, 1992, through June 1, 2001*



**JOHN CHIANG**  
California State Controller

October 2011



**JOHN CHIANG**  
**California State Controller**

October 12, 2011

Mark Cowin, Director  
Department of Water Resources  
1416 Ninth Street, Room 1115-1  
Sacramento, CA 95814

Dear Mr. Cowin:

The State Controller's Office audited claims submitted by the City of Petaluma under the Flood Control Subventions Program.

The city claimed state share costs of \$5,363,856 for the Petaluma River Flood Control project for the period of June 26, 1992, through June 1, 2001. Our audit disclosed that \$4,911,472 is allowable and \$452,384 is unallowable. The unallowable costs of \$452,384 occurred primarily because the city claimed duplicate costs of \$99,408 and claimed land costs in excess of appraisals by \$255,026. Also, the city claimed an incorrect reimbursement ratio, resulting in an overclaim of \$97,950.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/sk

cc: Nihideh Madankar, Chief  
Flood Control Subventions Program  
Division of Flood Management  
Department of Water Resources  
John C. Brown, City Manager  
City of Petaluma  
Remleh Scherzinger, Engineering Manager  
Department of Water Resources and Conservation  
City of Petaluma  
Pamela Tuft, Special Projects Manager  
Department of Water Resources and Conservation  
City of Petaluma

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# Audit Report

## Summary

The State Controller's Office (SCO) audited claims submitted by the City of Petaluma under the Flood Control Subventions Program. Our audit included the Petaluma River Flood Control project for the period of June 26, 1992, through June 1, 2001.

The city claimed state share costs of \$5,363,856 during the audit period. Our audit disclosed that \$4,911,472 is allowable and \$452,384 is unallowable. The unallowable costs occurred primarily because the city claimed duplicate costs of \$99,408 and claimed land costs in excess of appraisals by \$255,026. Also, the city claimed an incorrect reimbursement ratio, resulting in an overclaim of \$97,950.

## Background

The State of California provides financial assistance to local agencies participating in the construction of federal flood control projects. Under the Flood Control Subventions Program (State Water Code, Division 6, Part 6, Chapters 1 through 4), the California Department of Water Resources pays a portion of the local agency's share of flood control project costs, including the costs of rights-of-way, relocation, and recreation and fish and wildlife enhancements.

State Water Code section 12832 authorizes the State Controller to audit the books and records of local agencies to determine whether the state funds received were expended for the purposes and under the conditions authorized.

## Objective, Scope, and Methodology

Our audit objective was to determine whether the costs claimed as presented in the Summary of Project Costs (Schedule 1) are allowable and in compliance with the Department of Water Resources' Guidelines for State Reimbursement on Flood Control Projects.

We conducted this performance audit under the general authority of Government Code section 12410 and the specific authority under State Water Code section 12832. We did not audit the city's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We used haphazard sampling to test transactions. The areas examined included:

- Claim preparation process
- Land acquisition costs
- Relocation costs
- Other allocable costs
- Revenue recognition

We limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are shown on the Summary of Project Costs (Schedule 1) and described in the Findings and Recommendations section. The City of Petaluma claimed \$5,363,856 for the Petaluma River Flood Control project under the Flood Control Subventions Program for the period of June 26, 1992, through June 1, 2001. Our audit disclosed that the claimed amounts for the audit period included allowable costs of \$4,911,472 and unallowable costs of \$452,384.

## **Views of Responsible Official**

We issued a draft audit report on April 28, 2011. John C. Brown, City Manager, responded by letter dated July 20, 2011, agreeing with the audit results. This final audit report includes the city's response as an attachment.

## **Restricted Use**

This report is solely for the information and use of the City of Petaluma, the California Department of Water Resources, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

October 12, 2011

**Schedule 1—  
Summary of Project Costs  
June 26, 1992, through June 1, 2001**

<u>Petaluma River Flood Control Project</u>	<u>Actual Costs Claimed</u>	<u>State Funding Percentage Claimed<sup>1</sup></u>	<u>Claimed State Share of Actual Costs</u>	<u>State Share of Allowable Costs</u>	<u>Audit Adjustments</u>	<u>Reference<sup>2</sup></u>
Claim Number:						
SPPR 97-1	\$ 2,576,213	70%	\$ 1,803,349	\$ 1,803,349	\$ —	
SPPR 98-1	1,681,818	75%	1,261,364	1,177,273	(84,091)	Finding 1
SPPR 98-2	277,187	75%	207,890	94,623	(113,267)	Findings 1, 2
SPPR 2001-1	<u>2,987,504</u>	70%	<u>2,091,253</u>	<u>1,836,227</u>	<u>(255,026)</u>	Finding 3
Totals	<u>\$ 7,522,722</u>		<u>\$ 5,363,856</u>	<u>\$ 4,911,472</u>	<u>\$ (452,384)</u>	

NOTE: State share of allowable costs is 70%.

<sup>1</sup> The state share of allowable project costs represents the percentage of state funding, as stipulated in the California Water Code, for each project cost category.

<sup>2</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## **FINDING 1— Department of Water Resources adjustments**

The city claimed a state cost participation rate of 75% on Claim Nos. SPPR 98-1 and SPPR 98-2, rather than the allowable rate of 70%. As a result, the Department of Water Resources disallowed \$84,091 and \$13,859 on Claim No. SPPR 98-1 and Claim No. SPPR 98-2, respectively. We concur with the department's determination.

The department's Guidelines for State Reimbursement on Flood Control Projects (February 1974), Section VI, Part D, specifies that the department will reduce a local agency's reimbursement claims for any item that is determined to be ineligible.

### Recommendation

The city should reduce its claims for reimbursement by \$97,950. In the future, the city should ensure that it claims the correct state participation rate.

### City's Response

We have no additional comments to add.

## **FINDING 2— Duplicate costs claimed**

The city claimed general project costs of \$142,012 on Claim No. SPPR 97-1 and claimed the same costs again on Claim No. SPPR 98-2. The city reported the amount of \$142,012 on the following warrant numbers:

<u>Warrant Number</u>	<u>Amount</u>
C61280	\$ 50,597
C61481	31,825
C62238	34,303
C63084	25,287
Total	<u>\$ 142,012</u>

The warrant numbers listed above are reported on both Claim No. SPPR 97-1 and Claim No. SPPR 98-2.

Costs reported on Claim No. SPPR 98-2	\$ 142,012
State funding percentage claimed	<u>× 70%</u>
Audit adjustment	<u>\$ (99,408)</u>

The department's Guidelines for State Reimbursement on Flood Control Projects (February 1974), Section VI, Part B, specifies that the State will reimburse the local agency for costs incurred.



Recommendation

The city should reduce claimed costs by \$142,012. In the future, the city should review claimed costs to ensure that there is no duplication of reimbursement requests.

City's Response

We have no additional comments to add.

**FINDING 3—  
Land acquisition costs  
overclaimed**

The city claimed land acquisition costs that exceeded the high appraisals by \$364,323 on the following parcels:

<u>Parcel Number</u>	<u>Claimed Cost in Excess of High Appraisal</u>
6-432-016	\$ (4,073)
7-071-04	(12,341)
7-041-01	(3,629)
7-071-005	(1,888)
7-660-32	(316,138)
6-423-033	(13,430)
6-423-25	(12,824)
Total	(364,323)
State funding percentage	× 70%
Audit adjustment	<u>\$ (255,026)</u>

The department's Guidelines for State Reimbursement on Flood Control Projects (February 1974), Section IV, Part D, specifies that negotiated settlements may not exceed the local agency's high appraised value unless the advance approval of the department has been obtained.

Recommendation

The city should reduce its claim for reimbursement by \$364,323. In the future, the city should ensure that costs claimed are eligible for reimbursement under the department's guidelines.

City's Response

We have no additional comments to add.

**Attachment—  
City's Response to  
Draft Audit Report**

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# CITY OF PETALUMA

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David Glass  
Mayor

Chris Albertson  
Teresa Barrett  
Mike Harris  
Mike Healy  
Gabe Kearney  
Tiffany Renée  
Councilmembers

July 20, 2011

Steven Mar  
Chief, Local Government Audits Bureau  
State Controller's Office  
P.O. 942850  
Sacramento, CA 94250-5874

Dear Mr. Mar,

Thank you for the opportunity to provide comment on the recent audit by your office. We have no additional comments to add.

We greatly appreciate the professionalism of your staff and would like to commend Mr. Chiesa on a job well done. Staff has indicated that he was a pleasure to work with. His attention to detail and knowledge of the process helped the City understand the inaccuracies within the submittals and what needed to be done to rectify those issues.

Again, thank you for the opportunity to comment on your audit report. We are looking forward to closing the project and recuperating those funds allowable.

Regards,

John C. Brown.  
City Manager

cc: Remleh Scherzinger P.E., Interim Director  
Pamela Tuft, Special Projects Manager

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